Financial Statements

Years Ended September 30, 2001 and 2000, with Report of Independent Auditors

Financial Statements

Years ended September 30, 2001 and 2000

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OVERVIEW

The Presidio Trust (the Trust) is the federal entity created by Congress to be the guardian of the natural, scenic, recreational and cultural resources of the Presidio of San Francisco in partnership with the National Park Service (NPS). The Trust is managing the Presidio's transformation from a post of the U.S. Army to a first-of-its-kind sustainable national park serving both a vibrant internal community and millions of visitors.

The Trust is rehabilitating the historic structures that distinguish the Presidio as a National Historic Landmark District and enhancing the extraordinary natural environment that led Congress to include the Presidio in the Golden Gate National Recreation Area in 1972. As mandated by law, the Trust is on a path to achieve financial self-sufficiency by Fiscal Year 2013.

The Trust is directed by the Presidio Trust Act to operate in accordance with general objectives of the 1994 General Management Plan Amendment for the Presidio and the Government Corporation Control Act. As an independent federal entity, the Trust has a direct relationship with the Office of Management and Budget, and is required to submit annual reports to Congress.

In July 1998, the Trust submitted to Congress its *Financial Management Program* (the Program). The Program outlines how the Trust will reduce its reliance on appropriated funds and achieve financial self-sufficiency. The Program calls for declining appropriations levels each successive year, with appropriations ceasing in Fiscal Year 2013.

Presidio operations are currently financed through a direct appropriation, initiated in Fiscal Year 1999, which will decrease in each of the next 12 years, borrowings from the U.S. Treasury for the renovation of properties, reimbursable agreements with other government agencies, and rental leases for both residential and non-residential property. Additionally, the Presidio Trust manages service-related entities, including water treatment, electrical distribution and telecommunications for the Presidio.

MISSION, ORGANIZATIONAL STRUCTURE AND GOALS

Mission

The mission of the Trust is to preserve and enhance the Presidio as a National Park and National Historic Landmark District in an urban area. In order to assure its continued preservation as a National Park, Congress has mandated that the Trust achieve financial self-sufficiency by Fiscal Year 2013.

To achieve its mission, the Trust is creating at the Presidio a model of sustainability – an innovative approach to park management that ensures consideration of long-term environmental, community and economic impacts in all Trust decision-making.

In a step unusual for a government agency, the Trust developed a 30-year financial model for the Presidio in 1998. The model provides a blueprint for achieving financial self-sufficiency by Fiscal Year 2013, and formed the basis for the Trust's *Financial Management Program* (the Program), which was presented to Congress on July 8, 1998. The Program provides for an annual decline in direct appropriations from Congress resulting in zero appropriations in Fiscal Year 2013, and details the level of capital investment needed prior to that break-even year in order to achieve sufficient annual cash flow to operate and maintain the park indefinitely.

Recognizing that many circumstances have changed since the National Park Service published its 1994 General Management Plan Amendment (GMPA) for the Presidio, the Trust has undertaken a plan update, which was completed in the spring of 2002. The updated plan sets a general framework for the future of the park, and provides parameters for future actions. All planning efforts at the Presidio include broad outreach to the general public and incorporate thousands of public comments.

Organizational Structure

The Presidio Trust was established as a wholly-owned corporation of the Federal government. Authority is vested in a seven-member Board of Directors. The President of the United States appoints six members of the board. The Secretary of the Interior or his designee also serves on the board. The Trust's staff is headed by an executive director, and is organized into six divisions. Each division is managed by a deputy director, the chief financial officer or the general counsel, who in turn report to the executive director.

In establishing the Presidio Trust as a wholly-owned government corporation, Congress created an organization that could operate in the marketplace, make real-time decisions and reinvest revenues into the park in order to generate sufficient cash flow to eventually operate the park without federal appropriations.

The Trust Act (Public Law 104-333) provided significant operational latitude in staffing, contracting, leasing and the retention of revenues. The Trust manages park operations and leasing functions through a combination of direct staffing and contracting.

Goals

Preserving and Enhancing the Presidio as a National Park Site in an Urban Area

The Trust was designed specifically to manage the Presidio, a unique national park site, in a manner that protects its scenic beauty, natural and historic resources, and recreational attributes for future generations. The Trust, a federal executive agency, must also become financially self-sustaining by Fiscal Year 2013. These goals reinforce each other. By creating a park that is sustainable – environmentally, culturally and financially – the Trust will be better able to ensure the Presidio's long-term viability and protection as part of the national park system.

In Fiscal Year 2001, the Trust took significant steps to enhance the natural environment of the Presidio. Specifically, action was taken to improve the health of the Presidio's forest, to revitalize the Presidio's only freshwater lake and to protect threatened species.

- The Presidio's forest was planted by the U.S. Army over 100 years ago, and many of its trees are nearing the end of their natural life spans. With proper care, many of these trees can live an additional 25-30 years, and the Trust is engaged in an aggressive effort to revitalize key Presidio forest stands. The Trust, working with the National Park Service, is finalizing a plan that will guide stewardship of the forest, native plants, and landscaped areas of the park over the next several decades. In Fiscal Year 2001, the Trust began various pilot revegetation projects at the Presidio. Several projects that are needed to reverse declines in the health of natural resources in the Presidio will be implemented in FY 2002.
- Mountain Lake, the Presidio's only freshwater lake, is threatened with declining clarity and deteriorating biological health. Using mitigation funds obtained for this purpose from the San Francisco International Airport, the Golden Gate National Parks Association is working with the Trust and National Park Service to restore the lake's ecological health. The project will also ensure improved public access to the lake.
- The Trust and its federal partner, the National Park Service (NPS), continue to develop a long-term partnership for managing the Presidio and enhancing the visitor experience. In accordance with direction provided by Congress, the two agencies are collaborating on ways to create operational savings and consolidate activities throughout the Presidio.
- The Presidio contains nearly 500 historic structures, many of which are in need of significant attention to maintain their structural integrity. When the Trust rehabilitates historic buildings, either directly or through Presidio tenants, the most advanced "green" sustainable technology is used. Trust-developed "green" building guidelines have been adopted for use in rehabilitating historic buildings nationwide. Using sustainable and recycled materials and employing energy-saving technologies, the Trust is able to protect historic resources cost-effectively while reducing impacts on future generations. The Trust is also performing cyclical preventive maintenance on Presidio structures to ensure their continued viability.
- The Trust has implemented a range of programs to make the park a model for sustainable use of resources. Energy conservation, green building guidelines, use of reclaimed water and salvage of materials are all part of a program to reduce costs and resource use now and into the future. The Presidio Trust Salvage Department has already recovered over $200,000 worth of reusable equipment, furnishings and materials.
- The Regeneration Program has established partnership efforts with local schools and community organizations, inviting children and adults to learn about and assist with the process of composting organic waste to create a nutrient-rich topsoil that nourishes plants and trees throughout the park.

Achieving Financial Self-Sufficiency

The Trust Act requires the Trust to reduce its reliance on federally appropriated dollars each year. Beginning in Fiscal Year 2013, the Trust will no longer be authorized to receive federal appropriations. In 1998, the Trust submitted a schedule of annually declining appropriations, resulting ultimately in zero federal appropriations in 2013.

Unlike most other federal agencies, the Presidio Trust is authorized to retain revenues that it receives and use them to defray costs associated with park operations, capital improvements and reserves for future capital needs.

In order to develop a sustained stream of revenue to support the park, the Trust is aggressively leasing the Presidio's historic and non-historic buildings. Essential capital improvements to these buildings are funded either directly by Trust funds and borrowing, or indirectly through the use of third-party capital investment secured by long-term leases.

In Fiscal Year 2001, the Trust generated $32.3 million in leasing revenues, an increase of 61.5% over FY 2000 leasing revenues. Using some funds borrowed from the U.S. Treasury, the Trust rehabilitated 142 previously vacant residential units and 65 previously leased residential units, bringing the total number of leasable units to 1029. As a result, housing revenues increased to $21.3 million for Fiscal Year 2001.

By the end of the fiscal year, over 900,000 square feet of space had been leased to non-residential tenants; there is a development agreement for an additional 900,000 square feet.

During Fiscal Year 2001, the Trust completed negotiations and crews started deconstruction of the outdated 900,000 square foot Letterman hospital and research facility. By Fall of 2002, the Letterman site will be ready for the groundbreaking of a new $300 million privately funded project. Funded by Lucasfilm Ltd., the new facility will provide park visitors with a host of improvements, including a new seven-acre park area, cafes and walking paths. New, more architecturally compatible buildings will house Lucasfilm's Letterman Digital Arts Center. The company will make a significant financial commitment to developing a state-of-the-art public museum using the latest digital technology. By FY 2013, when the Trust is expected to achieve financial self-sufficiency, the Letterman project will provide the Trust with approximately 12% of the annual revenue needed to sustain the Presidio.

In order to achieve financial self-sufficiency by Fiscal Year 2013, the Trust must invest heavily in building rehabilitation and infrastructure improvements during the early years when federal appropriations are available to support the park's operating costs. In Fiscal Year 2001, the Trust invested over $20 million in capital projects, and plans an investment of $26 million in capital projects for Fiscal Year 2002. Congress has authorized a total of $50 million in Treasury borrowing for capital investment; however, this level of borrowing will fund only about 10% of the Presidio's ultimate capital need. It is therefore essential that Congress continue to fully fund the Trust's annual appropriations requests in order to allow earned income to be used for needed capital investment.

Environmental Remediation

Under the terms of a landmark environmental remediation agreement signed in Fiscal Year 1999 by the Trust, Department of Defense and Department of the Interior, the Trust is now managing the Presidio's environmental cleanup. Funding for the cleanup is provided by the Army. The Trust has currently received all of the funding, accepting an early and final payment of $24 million one year earlier than the agreement calls for. The Trust spent $4.4 million in Fiscal Year 2000 and $8.5 million in Fiscal Year 2001 on environmental cleanup. The Trust projects spending approximately $28 million in Fiscal Year 2002 on additional environmental cleanup projects.

As part of the agreement, the Trust also purchased an environmental insurance policy to cover cost overruns of up to an additional $100 million. The Army retains responsibility for all unknown contaminants, and has agreed to step back into the process if costs exceed the $100 million received from the Army plus insurance proceeds by $10 million.

The Trust considers this landmark agreement to be essential to its efforts to achieve financial self-sufficiency. Only by controlling the pace, quality and direction of the cleanup can the Trust be assured that remediation activities will coincide with leasing and reuse priorities. The Trust has received strong support for this effort from state and federal regulatory agencies, the Restoration Advisory Board, and the general public.

FINANCIAL RESOURCES AND RESULTS OF OPERATIONS

The accompanying financial statements summarize the Trust's financial position, show the net cost of operations and changes in net position, provide information on budgetary resources and financing, and present the sources of revenues and expenditures during Fiscal Year 2001. Highlights of the financial information presented in the financial statements are shown below:

Net Cost Of Operations

The net operating costs of $62.7 and $46.5 million, for Fiscal Years 2001 and 2000, respectively, are shown on the Statements of Net Cost. These costs were reduced by $55.0 and $35.7 million of earned revenues to arrive at net cost of operations of $7.7 million and $10.9 million for Fiscal Years 2001 and 2000, respectively.

Financial Position

The Trust's total assets were $204.1 and $136.2 million at the end of Fiscal Years 2001 and 2000, respectively. Of the Fiscal Year 2001 amount, $123.0 million consisted of investments in U.S. Treasury securities through the Bureau of Public Debt. There was also $153.2 million and $101.5 million in liabilities at the end of Fiscal Years 2001 and 2000 respectively. Fiscal Year 2001 liabilities include $50 million in debt to the U.S. Treasury and advances of $84.3 million from the Army for environmental remediation. The Trust's net position was $50.9 and $34.7 million at the end of Fiscal Years 2001 and 2000, respectively.

Budgetary Resources

The Trust's budgetary resources were $211.1 million, which consisted of $23.4 million in appropriations, $10 million in borrowing authority, $81.2 million in unobligated funds from FY 2000 and $96.5 million in collections, of which $49.0 million were from the Army for environmental remediation. Obligations incurred against these resources were $91.7 million. Unobligated balances available at the end of Fiscal Years 2001 and 2000 were $95.4 and $81.2 million, respectively. This unobligated balance is due primarily to the advance from the Army of remediation funds and unused Treasury borrowing.

Financing Sources Other Than Earned Revenues

Financing sources other than earned revenues funded the Trust's net cost of operations. The Trust reported $24.9 million of other financing sources on the Statement of Changes in Net Position. This consisted mainly of appropriations used.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The Trust has prepared its financial statements to report its financial position and results of operations. These financial statements have been prepared from the Trust's general ledger and subsidiary reports in accordance with the formats prescribed by the Office of Management and Budget. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that the Trust is a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without authorizing legislation.

The accuracy of the information contained in the principal financial statement and the quality of internal control rests with management.

Report of Independent Auditors

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Report of Independent Auditors

To the Board of Directors of
The Presidio Trust

We have audited the accompanying balance sheets of the Presidio Trust (the Trust) as of September 30, 2001 and 2000, the related statements of net cost for the years then ended, and the related statements of budgetary resources, financing, and changes in net position for the year ended September 30, 2001. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards, generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. These standards and requirements require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

On July 1, 1998, the Trust assumed jurisdiction over approximately 1,100 acres of federal land and over 800 buildings from the National Park Service. The United States Army previously administered the property. Many of the structures are greater than 40 years old and pursuant to Trust depreciation policies were fully depreciated at the point of transfer. SFFAS #6 – *Accounting for Property, Plant and Equipment (PPE)* – requires PPE to be recognized when title passes to the entity. Additionally, SFFAS #6 requires that the cost of general PPE transferred from other federal entities be the cost recorded by the transferring entity, net of accumulated depreciation; if such amounts cannot be reasonably ascertained, the cost of PPE is to be its fair value at the time transferred.

As discussed in Note 5, due to the lack of available information from the National Park Service and the United States Army, the Trust valued buildings less than 40 years old by using appropriate construction industry indices, less an accumulated depreciation adjustment to ascertain net asset value at the date of the Trust's formation. However, improvements made to buildings over 40 years old and land improvements have been valued at zero net book value but may still have a net cost value. Per SFFAS #6, the Trust should record these improvements at fair value. Estimating the values of these improvements would be a process that the Trust considers to be lengthy, cost prohibitive, and which would result in information that is meaningless to the users of the Trust's financial statements. In addition, the Letterman Hospital facility, which was constructed within the last 40 years, was also reflected at a net book value of $0 at September 30, 2000 due to limitations in valuing a hospital facility; the Letterman Hospital facility was demolished in 2001. We were unable to satisfy ourselves as to the estimate of the carrying amount for these assets.

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In our opinion, except for the effects of adjustments to the financial statements, if any, that might have been determined to be necessary had we been able to examine evidence supporting the recorded balances of certain improvements within the property, plant and equipment accounts, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust at September 30, 2001 and 2000, and its net costs for the years then ended, and for its budgetary resources and reconciliation of net costs to budgetary obligations for the year ended September 30, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The information presented in the Overview of the Trust and the Supplemental Information of the Trust is not a required part of the financial statements, but is supplementary information required by the office of Management and Budget Bulletin 97-01, *Form and Content of Agency Financial Statements*. Such information has not been subjected to the auditing procedures applied in the audits of the principal financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have issued our reports dated January 4, 2002, on our consideration of the Trust's internal control and on its compliance with applicable laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Ernst + Young LLP

January 4, 2002

Financial Statements

BALANCE SHEET

	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000
ASSETS		
Intragovernmental Assets		
Fund balance with Treasury	$ 13,817,238	$ 1,286,900
Trust fund investments **[NOTE 2]**	123,034,000	91,085,283
Interest receivable **[NOTE 2]**	1,872,289	688,958
Accounts receivable, net **[NOTE 3]**	2,338,671	2,287,509
	141,062,198	95,348,650
Accounts receivable, net **[NOTE 3]**	2,427,229	1,332,406
Cash and other monetary assets **[NOTE 4]**	56,079	93,921
General property plant and equipment, net **[NOTE 5]**	59,081,624	38,507,378
Other assets	1,461,328	949,614
	63,026,260	40,883,319
TOTAL ASSETS	204,088,458	136,231,969
LIABILITIES AND NET POSITION		
Liabilities covered by budgetary resources		
Intragovernmental		
Accounts payable	1,442,726	6,483,547
Other liabilities **[NOTE 6]**	247,532	1,274,970
Advances for environmental cleanup costs **[NOTE 7]**	84,274,730	42,378,812
	85,964,988	50,137,329
Accounts payable	7,976,281	4,409,578
Obligations under capital leases **[NOTE 9]**	3,294,288	2,895,339
Security deposits **[NOTE 10]**	2,164,029	1,596,664
Accrued payroll and benefits	2,315,852	1,451,202
Total liabilities covered by budgetary resources	101,715,438	60,490,112
Liabilities Not Covered by Budgetary Resources		
Debt **[NOTE 8]**	49,978,000	40,000,000
Accrued leave	1,404,061	993,022
Other unfunded liabilities	75,526	61,205
	51,457,587	41,054,227
TOTAL LIABILITIES	153,173,025	101,544,339
NET POSITION		
Unexpended appropriations **[NOTE 12]**	27,668	186,281
Cumulative results of operations	50,887,765	34,501,349
TOTAL NET POSITION	50,915,433	34,687,630
TOTAL LIABILITIES AND NET POSITION	$ 204,088,458	$ 136,231,969

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF NET COST

	FOR THE YEAR ENDED SEPTEMBER 30, 2001	2000
Program Costs **[NOTE 13]**	$ 62,746,500	$ 46,527,765
Less earned revenues		
Intragovernmental	21,107,662	14,116,307
With the public **[NOTE 14]**	33,912,868	21,555,398
	55,020,530	35,671,705
NET COST OF OPERATIONS	$ 7,725,970	$ 10,856,060

STATEMENT OF CHANGES IN NET POSITION

	FOR THE YEAR ENDED SEPTEMBER 30, 2001
Net cost of operations	$ 7,725,970
Financing sources (other than exchange revenues)	
Appropriations used	23,507,133
Imputed Financing from Costs Absorbed by Others	1,486,000
Total financing sources	24,993,133
Net results of operations	17,267,163
Prior period adjustments **[NOTE 15]**	(880,747)
Net change in cumulative results of operations	16,386,416
Decrease in unexpended appropriations	(158,614)
Change in net position	16,227,802
Net position, beginning of period	34,687,631
NET POSITION, END OF PERIOD	$ 50,915,433

The accompanying notes are an integral part of these financial statements.

STATEMENT OF BUDGETARY RESOURCES

	FOR THE YEAR ENDED SEPTEMBER 30, 2001
BUDGETARY RESOURCES	
Budget authority	$ 33,393,795
Unobligated balances – beginning of period	81,202,641
Spending authority from offsetting collections	96,460,636
TOTAL BUDGETARY RESOURCES	211,057,072
STATUS OF BUDGETARY RESOURCES	
Obligations incurred	91,664,552
Unobligated balances-available	95,392,520
Unobligated balance-not available	24,000,000
TOTAL STATUS OF BUDGETARY RESOURCES	211,057,072
OUTLAYS	
Obligations incurred	91,664,552
Less: spending authority from offsetting collections and adjustments	(96,460,636)
Obligated balance, net – beginning of period	10,597,039
Less: obligated balance, net – end of period	(17,452,513)
TOTAL OUTLAYS	$ (11,651,558)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCING

	FOR THE YEAR ENDED SEPTEMBER 30, 2001
RESOURCES USED TO FINANCE ACTIVITIES	
Budgetary Resources	
Budgetary resources obligated for orders, delivery of goods and services to be received, or benefits to be provided to others	$ 91,664,552
Less: offsetting collections, and recoveries of prior year authority	(96,460,636)
Net budgetary resources used to finance activities	(4,796,084)
Non-Budgetary Resources	
Costs incurred by others for the entity without reimbursement	1,486,000
Net non-budgetary resources used to finance activities	1,486,000
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	(3,310,084)
RELATIONSHIP OF TOTAL RESOURCES TO THE NET COST OF OPERATIONS	
Budgetary resources that fund expenses recognized in prior periods	2,902,519
Decrease in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	32,172,577
Adjustments other than collections made to compute net budgetary resources that do not affect net cost of operations	
Resources that do not affect net cost of operations	(7,064,304)
Resources that finance the acquisition of assets or liquidation of liabilities	(17,798,177)
TOTAL RESOURCES PROVIDED TO FUND ITEMS NOT PART OF THE NET COST OF OPERATIONS	10,212,615
RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	6,902,531
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES	
Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time	
Increase in annual lease liabilities	(486,565)
Expenses related to use of assets	2,142,777
Losses from re-evaluation of assets and liabilities	77,504
Increase in exchange revenue receivable from the public	(1,094,823)
Decrease in cash held by others	37,842
Other	411,039
Expenses that will be financed with budgetary resources recognized in future periods	(264,335)
TOTAL COMPONENTS NOT REQUIRING OR GENERATING RESOURCES	823,439
NET COST OF OPERATIONS	$ 7,725,970

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

September 30, 2001 and 2000

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Presidio Trust (the Trust), an executive agency, is a wholly-owned government corporation established by Congress in 1996 through enactment of the Presidio Trust Act (P.L. 104-333). The Trust's mission is to:

- preserve and enhance the Presidio as part of the national park system
- achieve financial self-sufficiency by Fiscal Year 2013.

From 1846 to 1994, the Presidio acted in the capacity of a U.S. military installation. In 1994, the National Park Service (NPS) assumed full control of the Presidio until 1998 when the Trust assumed responsibility for approximately 1,100 acres of non-coastal areas.

The Trust is guided by the Presidio Trust Act to operate in accordance with general objectives of the 1994 General Management Plan Amendment for the Presidio, and the Government Corporation Control Act. It currently finances operations through appropriations, which will decrease over the next 13 years, borrowings from the U.S. Treasury for the renovation of properties, reimbursable agreements with other government agencies, and rental leases for both residential and non-residential property. The Trust is overseen by a seven-member board of directors including a designee from the Department of the Interior (DOI) and six individuals from the private sector.

If the Trust fails to achieve self-sufficiency by Fiscal Year 2013, the net assets will be transferred to the General Services Administration for disposition.

Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Trust. The statements were prepared from the Trust's accounting records in conformity with accounting principles generally accepted in the United States (GAAP), and the form and content specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01. GAAP for federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), designated by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard-setting body of the Federal government.

Basis of Accounting

The Trust accounts for its assets, liabilities, net position, revenues, expenses, and other financing sources in accordance with the requirements of the U.S. Government Standard General Ledger (SGL). Use of sub-accounts allows transactions to be recorded at a more detailed level, and provides relevant management information.

While the statements are on an accrual basis, transactions are recorded using both the accrual and cash basis of accounting, and a budgetary basis of accounting. Under the accrual method, expenses are recognized when resources are consumed, without regard to the payment of cash. Under the cash method and the budgetary method, expenses are recognized when cash is outlayed. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Balance Sheets

The balance sheets present amounts of future economic benefits owned or managed by the Trust (assets), amounts owed (liabilities), and amounts that comprise the difference (net position). The major

components are described below.

ASSETS include assets that the Trust holds and has the authority to use in its operations.

LIABILITIES represent amounts owed by the Trust as the result of transactions that have occurred. Liabilities funded by available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation or borrowing authority.

Liabilities not covered by budgetary resources are incurred when funding has not yet been made available through Congressional appropriations or current earnings. The Trust recognizes such liabilities for employee annual leave earned but not yet taken.

NET POSITION contains the following components:

Unexpended Appropriations include the portion of the Trust's appropriations represented by undelivered orders and unobligated balances.

Cumulative Results of Operations represent the net results of operations since the inception of the program.

Statements of Net Cost

The Statements of Net Cost show the components of the net cost of the Trust's operations for the periods.

Program/Activity Costs represent the gross costs or expenses incurred by the Trust for all activities.

Earned Revenues or exchange revenues arise when a Government entity provides goods and services to the public or to another Government entity for a fee.

Net Cost of Operations is the difference between the program's gross costs and its related exchange revenues.

Statements of Changes in Net Position

The Statement of Changes in Net Position shows the net cost of operations less financing sources other than exchange revenues, and the net position at the end of each period. Major components are described below.

Financing Sources arise primarily from exercise of the Government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties). These non-exchange revenues include appropriations, transfers of assets from other Government entities, donations, and imputed financing.

Appropriations for financial statement purposes are recognized as a financing source as expenses are incurred.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information about the availability of budgetary resources as well as their status at the end of the year. Major components are described below.

Budget Authority represents the funds available through appropriations, direct spending authority, obligation limitations, unobligated balances at the beginning of the period or transferred in during the period, spending authority from offsetting collections, and any adjustments to budgetary authority.

Obligations Incurred consists of expended authority, recoveries of prior year obligations and the change in undelivered orders.

Statement of Financing

The Statement of Financing is a reconciliation of the preceding statements. Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources, especially in the treatment of liabilities. A liability not covered by budgetary resources may not be recorded as a funded liability in the budgetary accounts of the Trust's general ledger, which supports the Report on Budget Execution (SF-133) and the Statement of Budgetary Resources.

Based on appropriation language, they are considered "funded" liabilities for purposes of the Balance Sheets, Statements of Net Cost, and Statements of Changes in Net Position.

Use of Estimates in Preparing Financial Statements

Preparation of financial statements in accordance with federal accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition

Rental revenue is recognized using the straight-line method over the term of the lease. Any amounts deferred that are not payable until future years are included in deferred rent receivable. Deferred rent receivable totaled $113,943 and $75,962 in 2001 and 2000, respectively, and is included in other assets.

Intra-Governmental Relationships and Transactions

In the course of its operations, the Trust has relationships and financial transactions with numerous Federal agencies.

Department of the Interior (DOI)
An interagency agreement exists between the Trust and the DOI for the DOI to provide payroll services. Additional interagency agreements between the Trust and the National Park Service cover the provision of fire and police services to the Trust.

Department of the Treasury (Treasury)
All banking activities are conducted in accordance with the directives issued by Treasury – Financial Management Service (FMS). Trust investments in non-marketable U.S. Treasury securities are traded through and held in book entry form at Treasury – Bureau of the Public Debt.

Department of the Army
The Department of the Army (Army) has provided to the Trust, each year through Fiscal Year 2001, funds for the development and implementation of environmental remediation in accordance with a memorandum of agreement between the parties (see Note 8 for additional discussion).

Federal Emergency Management Agency
The Federal Emergency Management Agency (FEMA) currently leases two buildings on the Presidio and pays rental payments accordingly. The agency is scheduled to move out by June 30, 2002.

2. TRUST FUND INVESTMENTS

The Trust is required by P.L. 104-333 to invest all excess cash into non-marketable Treasury securities issued by the Bureau of Public Debt (BPD).

Investments as of September 30, 2001:

Intragovernmental securities

	Maturity Date	*Interest Rate*	*Par Value*	*Unamortized Discount*	*Net*
Non-marketable/Market Based	10/01/01	3.18%	$ 92,768,000	$ 0	$ 92,768,000
Non-marketable/Market Based	09/30/29	6.12%	30,266,000	0	30,266,000
			$ 123,034,000	$ 0	$ 123,034,000

The investment with a September 30, 2029 maturity date is an investment of the proceeds from Trust borrowings from the Treasury (see Note 8). The BPD invests these proceeds. until the Trust needs access to the cash. The Trust was owed $1,872,289 of interest on the investments as of September 30, 2001. This amount was paid in full to the Trust by the BPD on October 1, 2001.

Investments as of September 30, 2000:

Intergovernmental securities

	Maturity Date	*Interest Rate*	*Par Value*	*Unamortized Discount*	*Net*
Non-marketable/Market Based	10/02/00	6.52%	$ 25,500,000	$ 0	$ 25,500,000
Non-marketable/Market Based	11/09/00	6.14%	20,640,000	(140,811)	20,499,189
Non-marketable/Market Based	12/21/00	5.87%	9,275,000	(123,906)	9,151,094
Non-marketable/Market Based	09/30/29	6.12%	35,935,000	0	35,935,000
			$ 91,350,000	$ (264,717)	$ 91,085,283

The Trust was owed $688,958 of interest on these investments as of September 30, 2000. The Trust received this amount on October 17, 2000.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of September 30, 2001, is comprised of the following:

	Government	*Non-Government*	*Total*
Gross accounts receivable	$ 2,338,671	$ 2,639,228	$ 4,977,899
Less allowance for losses	0	(211,999)	(211,999)
Net accounts receivable at September 30, 2001	$ 2,338,671	$ 2,427,229	$ 4,765,900
Net accounts receivable at September 30, 2000	$ 2,287,509	$ 1,332,406	$ 3,619,915

Receivables consist of amounts owed from rental properties, security deposits, and service district charges. The Presidio Trust implemented the following allowance for loss policy in fiscal year 2000:

As a federal agency, the Trust has the full force of the United States government to facilitate collecting past due amounts. In addition, the Trust reviews accounts over 90 days past due; the Trust identifies collectable accounts and does not record any bad debt reserve for these accounts. For the remaining receivables over 90 days old, the Trust reserves 75% of the balance.

4. CASH AND OTHER MONETARY ASSETS

The Presidio Trust does not maintain a petty cash fund, nor any bank accounts. The Residential Property Management Firm under contract with the Trust maintains four bank accounts at West America Bank for the purpose of depositing rental revenues and security deposits, and paying all related expenses of the property management company. Any excess revenues over $10,000 are transferred monthly to the Trust. The combined balance in these accounts as of September 30, 2001 and 2000, was $56,079 and $93,921, respectively.

5. GENERAL PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment (PPE) includes fixed assets owned by the Trust as the result of purchases by the Trust and/or transfers from other governmental entities, primarily the NPS. In general, the Trust capitalizes fixed assets valued in excess of $25,000 and with a useful life of two or more years. These assets are depreciated over their useful lives in accordance with Trust guidelines.

Specific Trust capitalization and depreciation guidelines are as follows:

Classification	*Estimated Useful Life*	*Straight Line Depreciation*	*Cost*	*Accumulated Depreciation*	*Net Balance at 9/30/01*	*Net Balance at 9/30/00*
Land and Land Rights	N/A	$ 0	$ 0	$ 0	$ 0	$ 0
Improvements to Land	N/A	0	0	0	0	0
Construction-in-Progress	N/A	0	14,742,253	0	14,742,253	2,540,027
Buildings, Improvements and Related Renovations and Rehabilitations prior to takeover by the Trust	40 years ①					
• Over 40 years old		0	0	0	0	0
• Under 40 years old		714,095	28,563,792	14,521,842	14,041,950	14,756,045
Buildings, Improvements and Related Renovations and Rehabilitations since takeover by the Trust	40 years ①	421,720	20,727,396	699,137	20,028,259	12,851,374
Assets Under Capital Lease	②	55,880	3,870,405	77,834	3,792,571	2,929,219
Other Property, Plant and Equipment (including furnishings and equipment)	②	1,006,962	12,262,424	5,785,833	6,476,591	5,430,713
		$ 2,198,657	$ 80,166,270	$ 21,084,646	$ 59,081,624	$ 38,507,378

① Buildings, Improvements and Related Renovations and Rehabilitations: useful life of 40 years or less for improvements and renovations depending on remaining building life.

② Assets Under Capital Lease are amortized based on the Trust's depreciation policy. Other Property, Plant and Equipment's estimated useful life is also based on the Trust's capitalization and depreciation policy.

Additionally, the Trust capitalizes expenditures for improvements to infrastructure and buildings based upon the following criteria:

- costs exceed $25,000;
- are not considered to be repairs and maintenance;
- extend the useful life of the building by at least 20 years.

Furnishings and equipment purchased for a unit cost in excess of $25,000 are also capitalized. Construction-in-progress may include not only direct costs, but also an assigned indirect cost component, including architectural fees and legal expenses.

Land is considered to be general PPE and, in accordance with SFFAS #6, is to be recorded at cost. The land comprising the Presidio was acquired as an outcome of the resolution of hostilities between the United States and the government of Mexico in the mid-19th century. As such, no cost can be affixed to the land and land rights.

At September 30, 1999, most of the Trust's PPE was transferred to the Trust from the NPS. After extensive investigation, the Trust determined that historical cost information for buildings, building improvements and land and infrastructure improvements was not available from the NPS and/or the Army. Therefore:

- any building over 40 years old, and the cost of related renovations or rehabilitations prior to the Trust's formation, is considered fully depreciated and is reflected at a book value of $0.

- any structure less than 40 years old (built in 1959 or later) is carried at estimated replacement cost reduced for the effects of inflation by using appropriate construction industry indices, less an accumulated depreciation adjustment, to ascertain net asset value at the date of the Trust's formation. The Letterman Hospital facility, which was constructed within the last 40 years and was demolished in Fiscal Year 2001, is reflected at a net book value of $0 at the date of the Trust's formation through the date of its demolition due to the inherent limitations in the use of a replacement cost analysis for a hospital facility.

- other PPE transferred to the Trust from the NPS is capitalized at historical cost less depreciation that would have been taken over its useful life, based on the Trust's depreciation guidelines.

- land and infrastructure improvements are reflected at a net book value of $0.

The Trust determines depreciation and amortization using straight-line methodology. For financial statement purposes, a pro-rated share of depreciation expense for the asset is recorded in the year of acquisition or project completion, depending on the month of acquisition.

6. OTHER LIABILITIES

In Fiscal Year 2001, Other Liabilities consisted of accrued payroll taxes payable in the amount of $247,532. In Fiscal Year 2000, Other Liabilities consisted of a non-refundable payment by the Department of the Army (DOA) of $1,274,970. The payment was used by the Trust for maintenance and rehabilitation of units that were either to be occupied or were vacated by DOA personnel.

7. ADVANCES FOR ENVIRONMENTAL CLEANUP COSTS

The Army closed its base at the Presidio and, in September 1994, transferred administrative jurisdiction of the Presidio to the NPS through the DOI for incorporation into the Golden Gate National Recreation Area.

Executive Order 12580 delegated the responsibility to conduct the environmental cleanup of the Presidio to the Army. Under an interagency agreement with the DOI, the Army retained this responsibility as one of the terms of the jurisdictional transfer, and initiated certain actions to address environmental conditions at the Presidio.

When Congress created the Trust in 1996, it separated the

administrative jurisdiction of the Presidio into two areas: Area A, over which DOI retained authority, and Area B, which was transferred to the Trust in July 1998.

Under a Memorandum of Agreement (the Presidio MOA) among the Trust, DOI and the Army, the Trust assumed the Army's responsibilities as lead agency for the environmental cleanup in both Area A and Area B. The Army agreed to provide $100 million to the Trust in equal installments of $25 million over a four-year period commencing during Fiscal Year 1999 in exchange for the Trust's assumption of such responsibilities. The Trust received $25 million in Fiscal Year 2000 and $25 million in Fiscal Year 1999 from the Army under the Presidio MOA. The third payment of $25 million was received by December 31, 2000. In Fiscal Year 2001, the Trust agreed to accept $24 million as the final payment in exchange for receiving the payment one year early. These funds are recorded as Advances for Environmental Cleanup Costs on the Trust's financial statements.

Under a separate memorandum of agreement between the Trust and DOI (the Area A MOA), the Trust confirmed its agreement to take over lead agency responsibility for the cleanup of Area A of the Presidio. The Area A MOA also set out specific time periods, priorities and processes for remedy selection for environmental cleanup of Area A. Cleanup includes enumerated sites where a potential environmental threat (Substance and Condition) is presently known or may exist based on past Army studies or records. Cleanup also includes unknown contamination, which is any environmental threat at or from the Presidio other than an enumerated site that existed at the Presidio before October 1, 1994 (Presidio base closure) or was the result of an Army act or omission on or after October 1, 1994.

The Trust assumed the Army's responsibility as the lead cleanup agency, and performs all cleanup work at enumerated sites using the Army's funds, and is the point of contact for all regulatory agencies and for the public. The Army retained responsibility to fund and to perform all environmental cleanup work of unknown contamination as well as sole responsibility for the clean up of radioactive materials, chemical and biological warfare agents, and unexploded ordnance if discovered at the Presidio.

The Trust must use the funds transferred from the Army to address environmental cleanup of enumerated sites. If any funds are left after cleanup of the enumerated sites, the Trust can use the excess to address other environmental conditions at or emanating from the Presidio. If cleanup costs for the enumerated sites exceed the $100 million from the Army plus insurance proceeds (see discussion of the Trust's environmental insurance policies below) by $10 million, the Army must seek additional appropriated funds for the enumerated sites. The Army is excused from this requirement if the Trust's mismanagement or inefficient use of funds causes the cost overrun.

The Presidio MOA may be terminated if the Army fails to provide the agreed funds to the Trust to perform the environmental cleanup of the Presidio. If the Presidio MOA is terminated, the status of the Parties reverts back to the legal rights and obligations as they existed before the Presidio MOA.

The Trust obtained two policies of environmental insurance: a Remediation Stop Loss (RSL) policy and a Real Estate Environmental Liability (REEL) policy. The RSL policy provides the Trust with insurance against cost overruns in implementing environmental remedies that have been approved by the appropriate regulatory agencies. The RSL policy has a liability limit of $100 million. The Army and DOI are each named as an additional insured on the policy. The REEL policy provides the Trust with insurance associated with the discovery of Unknown Contamination. The REEL policy has a limit of $10 million per claim and $50 million in the aggregate. DOI is a named insured under the REEL policy.

The Trust is also required to set aside a total of $25 million ($6.25 million per year through Fiscal Year 2002) until all environmental remediation of Area A is completed.

8. DEBT

	2001	2000
Debt to the Treasury		
Note A		
Beginning Balance	$ 0	$ 10,000,000
Net Borrowing (Replaced)	0	(10,000,000)
Total Principal	$ 0	$ 0
Note B		
Beginning Balance	$ 0	$ 10,000,000
Net Borrowing (Replaced)	0	(10,000,000)
Total Principal	$ 0	$ 0
Note C (dated 09/29/00 – replaces Notes A & B)	$ 20,000,000	$ 20,000,000
Note C (dated 09/28/00)	20,000,000	20,000,000
Note C (dated 9/29/01)	9,978,000	0
Total Principal	$ 49,978,000	$ 40,000,000

The Presidio Trust Act granted the Trust the authority to borrow from the U.S. Treasury. The aggregate amount of outstanding obligations at any one time is limited to $50 million. These borrowings are intended to finance building and infrastructure rehabilitation by the Trust. Borrowing is contingent on the Secretary of the Treasury determining that the projects to be funded from the proceeds are creditworthy. In 1999, the Trust and the Secretary of the Treasury established a written borrowing agreement to advance funds for capital improvement projects. The Trust must execute a promissory note for any requested amount to evidence the obligation of the Trust to repay the Treasury the sum advanced, together with any late charges that might be incurred.

An advance request for $9,978,000 was made at the end of Fiscal Year 2001 to the Treasury for capital improvement projects. The request form was dated September 29, 2001, and the $9,978,000 advance was transferred to the Trust's Treasury account on September 30, 2001. In exchange, the Trust provided a promissory note for $9,978,000 to the BPD.

In Fiscal Year 2000, Note C dated September 29, 2000 was executed and delivered by the Trust in substitution for Note A and Note B, previously executed and delivered by the Trust to Treasury. From and after the effective date, all amounts outstanding under Note A and Note B are deemed to be amounts outstanding under Note C dated September 29, 2000.

1) Note A

Principal amount was $10 million, the amount of the actual request intended for the capital improvement projects activities in, on, or in support of the particular Trust assets, specifically the Baker Beach Apartments. The note included a pledge by the Trust to the Treasury of all rents, revenues, income, and proceeds arising out the Trust's administration, operation, and leasing of the assets that had been improved.

The Trust represented to the Treasury that the revenues had not been pledged in favor of any other person, and would not be as long as Note A was outstanding. Note A could be modified by amendments, extensions, and renewals as may be agreed upon from time to time by the Treasury and the Trust. The note had a maturity date of December 31, 1999, and incurred interest at 4.8%.

2) Note B

Principal amount was $10 million, the difference between the $20 million advance request and the amount of Note A described above. The Trust was instructed to place this amount in an escrow account. The note included a pledge by the Trust to the Treasury for the amount in the escrow account and any interest it earned.

The escrow account was used by the BPD to invest into governmental securities that bear the same rate as the Trust's interest rate for the borrowed funds. The Trust also represented that the escrow account had not been pledged to any person, and would not be as long as Note B was outstanding. If the note had not been paid by the maturity date, then the amount would have been returned to the Treasury. The note had a maturity date of December 31, 1999, and incurred interest at 4.8%.

The BPD invested the funds of the escrow account into government securities through their investment department. The interest earned was recorded in a governmental interest receipt account and used to pay the interest owed to the Treasury.

3) Note C (dated 09/29/00)

Principal amount is $20 million and replaced Note A and B. The amount of the request was intended for the capital improvement projects activities in, on, or in support of the particular Trust assets, specifically the Baker Beach Apartments, Building 220 and Building 36. The note includes a pledge by the Trust to the Treasury of all rents, revenues, income, and proceeds arising out of the Trust's administration, operation, and leasing of the specific assets (Baker Beach Apartments, Building 220 and Building 36) that have been improved. The note carries an interest rate of 6.122% and matures on September 30, 2029.

4) Note C (dated 09/28/00)

Principal amount is $20 million. The amount of the request is intended for the capital improvement activities in, on, or in support of any Trust assets. The note includes a pledge by the Trust to the Treasury of all rents, revenues, income, and proceeds arising out of the Trust's administration, operation, and leasing of the Baker Beach Apartments, Building 220 and Building 36. The note carries an interest rate of 6.122% and matures on September 30, 2029.

The BPD invested the unused portion of the account in government securities through their investment department. The interest earned was recorded in a governmental interest receipt account and used to pay the interest owed to the Treasury.

5) Note C (dated 09/29/01)

Principal amount is $9,978,000. The amount of the request is intended for the capital improvement activities in, on, or in support of any Trust assets. The note includes a pledge by the Trust to the Treasury of all rents, revenues, income, and proceeds arising out of the Trust's administration, operation, and leasing of the Baker Beach Apartments, Building 220 and Building 36. The note carries an interest rate of 6.122% and matures on September 30, 2029.

The BPD invested the unused portion of the account in government securities through their investment department. The interest earned was recorded in a governmental interest receipt account and used to pay the interest owed to the Treasury.

The Trust incurred $2,450,308 and $1,103,464 in interest costs in 2001 and 2000, respectively, all of which was included in program costs.

9. OBLIGATIONS UNDER CAPITAL LEASE

Future minimum payments under the Trust's capital leases are as follows:

Fiscal Year	
2002	$ 1,023,698
2003	1,019,748
2004	1,019,748
2005	980,248
2006	81,029
Total minimum lease payments	4,124,471
Less: amounts representing interest	830,183
Present value of minimum lease payments	$ 3,294,288

10. SECURITY DEPOSITS

The residential lease management company, John Stewart Company, collects security deposits from the residential tenants and transfers the deposits to the Trust. The Trust also collects security deposits from certain non-residential leases managed by the Trust.

11. DIRECT LOANS AND LOAN GUARANTEE, NON-FEDERAL BORROWERS

The Trust has authority to operate the following direct loan and/or loan guarantee programs:

- The Trust is empowered to provide direct loans to non-Federal borrowers. As of September 30, 2001, the Trust had not exercised this authority.
- The Trust is empowered to guarantee loans of non-Federal borrowers for construction and renovation. As of September 30, 2001, the Trust had not exercised this authority.

12. UNEXPENDED APPROPRIATIONS

	September 30,	
	2001	*2000*
Appropriations	$ 0	$ 0
Undelivered orders	27,668	186,281
Total Unexpended Appropriations	$ 27,668	$ 186,281

There is an additional $13,116,672 of undelivered orders related to budgetary resources other than appropriated funds.

13. PROGRAM COSTS BY OBJECT CLASS

	September 30,	
	2001	*2000*
Personal Services and Benefits	$ 29,753,273	$ 19,084,593
Contractual Services	13,067,226	12,511,727
Travel and Transportation	456,574	248,526
Rental, Communication, and Utilities	6,826,558	4,895,161
Printing and Reproduction	990,464	397,890
Supplies and Materials	2,293,552	2,440,057
Equipment and Fixed Assets	8,634,467	5,463,421
Other	162,057	113,212
Finance and Insurance	562,329	1,373,178
Total Program Costs	$ 62,746,500	$ 46,527,765

Certain residential lease operating expenses, aggregating approximately $1,340,397 and $1,150,000 in 2001 and 2000, respectively, have been deducted from residential lease operating income in the Statement of Net Cost.

14. LEASES

Trust as Lessor

Operating Leases

Description of Lease Arrangements: The Trust's properties are being leased under operating leases that expire over the next 50 years. The Trust expects that these leases will be renewed or replaced by other leases in the normal course of business. In addition, the lease over

the golf course is operated under a contingent rental agreement wherein the monthly rental revenue is a percent of the lessee's monthly revenue; the Trust recognizes this revenue when payment is received.

Additionally, the Trust has three other lessees that operate under contingent rental agreements wherein the monthly rent is a percent of the lessee's monthly revenue; however, the lessees remit their monthly rental payments to a separate government improvement account at a commercial bank. The rental payments are accumulated and can be used for improvements to the leased building. The Trust does not have signatory authority over the bank accounts and receives no rental payments related to these leases. All improvements funded from these accounts must be mutually approved by both the lessee and the Trust. The Trust recognizes the payments made to the government improvement account as rental revenues. The balance of the commercial accounts totals $1,214,454 and $873,652 in 2001 and 2000, respectively, and is included in other assets. The lease terms expire in 2002 to 2006.

The Trust also provides housing free of charge or at reduced rental rate to certain employees of the Trust and other governmental agencies.

Minimum future lease payments to be received under non-cancelable operating leases are as follows:

Fiscal Year	
2002	$ 5,878,473
2003	3,909,729
2004	3,277,101
2005	2,426,033
2006	1,720,514
Thereafter	23,657,471
Total	$ 40,869,321

15. PRIOR PERIOD ADJUSTMENTS

The prior period adjustments in the 2001 financial statements relate to corrections of errors. The table below lists the components of the prior period adjustment.

Asset Revaluation	$ 383,335
Adjustment to Program/Activity Costs	1,653,825
Adjustment to Beginning Net Position	(1,359,087)
Other smaller adjustments	202,674
Total Prior Period Adjustments	$ 880,747

During 2001, the Trust performed a review of its Construction-In-Progress, and based on that review an adjustment to capital assets of $383,335 was made.

During the analysis of certain payroll obligations, it was determined that the Presidio Trust had not recorded imputed health and Civil Services Retirement System (CSRS) retirement benefits. Also, the Federal Employees Compensation Act (FECA) liability had never been recorded. These adjustments totaled $1,653,825. The imputed costs are also a financing source and, therefore, adjusted beginning net position by $1,359,087.

Supplemental Information

September 30, 2001

INTRAGOVERNMENTAL ASSETS AND LIABILITIES

ASSETS

Agency	*Investments*	*Accounts Receivable*	*Fund Balance with Treasury*
Department of the Treasury	$ 123,034,000	$ 0	$ 13,817,238
National Park Service	0	1,419,326	0
FEMA	0	591,523	0
Other Federal agencies	0	327,822	0
Total	$ 123,034,000	$ 2,338,671	$ 13,817,238

LIABILITIES

Agency	*Accounts Payable*	*Advances for Environmental Cleanup*	*Debt*
Department of the Treasury	$ 0	$ 0	$ 49,978,000
U.S. Army	0	84,274,730	0
Department of the Interior	1,348,272	0	0
Other	94,452	0	0
Total	$ 1,442,724	$ 84,274,730	$ 49,978,000

DEFERRED MAINTENANCE

The Trust determined that NPS and the Army had deferred maintenance to many of the buildings that were transferred to the Trust. Using an Inventory Condition Assessment Program document from the NPS upon receipt of the property and an assessment survey by Trust personnel, the Trust determined that there is $1 million of deferred maintenance to buildings at the Presidio. There is no deferred maintenance for any other major class of asset.

Report of Independent Auditors on Internal Control

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Report of Independent Auditors on Internal Control

To the Board of Directors of
The Presidio Trust

We have audited the accompanying balance sheets of the Presidio Trust (the Trust) as of September 30, 2001 and 2000, the related statements of net cost for the years then ended, and the related statements of budgetary resources, financing, and changes in net position for the year ended September 30, 2001, and have issued our report thereon dated January 4, 2002, which was qualified due to the Trust's valuation methodology for certain property, plant and equipment transferred to the Trust at its inception.

Except for the matter discussed in the third paragraph of our report on the financial statements, we conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered the Trust's internal control over financial reporting by obtaining an understanding of the Trust's internal control, determined whether this internal control had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

The management of the Trust is responsible for establishing and maintaining internal control. In fulfilling this requirement, estimates and judgements by management are required to assess the expected benefits and related costs on internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States; and data that

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supports reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statement. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to relatively low levels the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions – the first matter noted in the following we consider to be a material weakness.

MATERIAL WEAKNESS

Integrated Financial Management Systems

Management has informed us that the Trust's Financial Accounting System (GLOWS) was recommended by the Office of Management and Budget (OMB) and installed during FY 1998 by the Treasury Department's Financial Management Services (FMS). The Trust has determined that improvements are necessary to provide adequate integrated reporting of financial data from each of the various activity sectors within the Trust. We concur in this assessment. The lack of an integrated computerized financial accounting system impairs the ability of management to prepare interim and year end financial reports in a timely manner.

Recommendations

We recommend that Trust management implement an integrated software solution that will assist it to effectively identify, track and record transactions to increase the efficiency of its processes, and reduce duplicative work steps. We understand that the Trust's management also recognizes this need, and, subsequent to year end, management purchased and installed a software solution that management believes addresses and solves the material weakness described above.

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REPORTABLE CONDITIONS

Real Property

On July 1, 1998, the Trust assumed jurisdiction over approximately 1,100 acres of federal land and over 800 buildings from the National Park Service. The United States Army previously administered the property. Many of the structures are greater than 40 years old and pursuant to Trust depreciation policies were fully depreciated at the point of transfer. SFFAS #6 – Accounting for Property, Plant and Equipment (PPE) – requires PPE to be recognized when title passes to the entity. Additionally, SFFAS #6 requires that the cost of general PPE transferred from other federal entities be either the cost recorded by the transferring entity, net of accumulated depreciation; if such amounts cannot be reasonably ascertained, the cost of the PPE is to be its fair value at the time transferred.

Due to the lack of available information from the National Park Service and the United States Army, the Trust valued buildings less than 40 years old by using appropriate construction industry indices, less an accumulated depreciation adjustment to ascertain net asset value at the date of the Trust's formation. However, improvements made to buildings over 40 years old and land improvements have been valued at zero net book value but may still have a net book value but may still have a net cost value. Per SFFAS #6, the Trust should record these improvements at fair value. Estimating the values of these improvements would be a process that the Trust considers to be lengthy, cost prohibitive, and which would result in information that is meaningless to the users of the Trust's financial statements. We were unable to satisfy ourselves as to the estimate of the carrying amount for these assets.

Recommendations

We recommend that management explore alternative approaches to valuing building and land improvements.

Current EDP Environment

Currently, the Trust does not have a business continuity plan or disaster recovery plan, and the Trust does not have a formal schedule to store backup tapes off-site, exposing the Trust's information systems to the risk of data loss. Additionally, the weakness of the controls around network passwords and network remote access make the Trust's information systems susceptible to unauthorized users gaining access to sensitive data or disabling the system.

Recommendations

We recommend that the Trust evaluate the needs for developing a formal business continuity plan detailing the necessary procedures to ensure a timely recovery of computer and general business process to minimize potential losses, as well as develop a disaster recovery plan and begin a formal process of storing backup tapes off-site. Additionally, we recommend that formal password setup standards and policies be established for all systems, and applications, and that remote access is reserved for users with specific remote access requirements.

* * * * * *

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In addition, we also consider the Trust's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the Trust's internal control, determined whether this internal control has been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on internal control. Accordingly, we do not provide assurance on such controls.

Finally, with respect to internal control related to performance measures reported in the Overview, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted other matters involving the internal control over financial reporting that we have reported to management of the Trust in a separate letter dated January 4, 2002. This letter is intended solely for the information and use of the management of the Trust, its Board of Directors, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

January 4, 2002

Report of Independent Auditors on Compliance with Laws and Regulations

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Report of Independent Auditors on Compliance with Laws and Regulations

To the Board of Directors of
The Presidio Trust

We have audited the accompanying balance sheets of the Presidio Trust (the Trust) as of September 30, 2001 and 2000, the related statements of net cost for the years then ended, and the related statements of budgetary resources, financing and changes in net position for the year ended September 30, 2001, and have issued our report thereon dated January 4, 2002, which was qualified due to the Trust's valuation methodology for certain property, plant and equipment transferred to the Trust at its inception.

Except for the matter discussed in the third paragraph of our report on the financial statements, we conducted our audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States and Office of Management and Budget (OMB) Bulletin No, 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Trust is responsible for complying with laws and regulations applicable to the Trust. As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No, 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Trust.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the Trust's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger of the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

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The results of our tests disclosed that the Trust's Financial Accounting System (GLOWS) failed to provide adequate reporting of financial data from each of the various activity sectors within the Trust. Therefore, the Trust does not have an integrated computerized financial accounting system. The Report of Independent Auditors on Internal Control dated January 4, 2002, includes information related to the financial management systems that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations related to the specific issues presented. It is our understanding that management agrees with the facts as presented, and relevant comments from the Trust's management responsible for addressing the noncompliance, including management's proposed plan, will be provided in the Trust's response, which is a supplement of the Trust's financial statements.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audits and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Trust, its Board of Directors, OMB, and Congress, and is not intended to be used by anyone other than these specified parties.

Ernst + Young LLP

January 4, 2002

The Trust's Response

The Trust is pleased to report our accomplishments in the past fiscal year, as indicated in these financial statements and notes, as well as in our Year-End Report to Congress.

Fiscal Year 2001 was only the third year that the Trust prepared financial statements and managed its own accounting function. Prior to October 1, 1998, the National Park Service managed the Trust's accounts. The Trust went live with its first financial accounting system, Orion's GLOWS, on October 1, 1998. During fiscal year 2001 the Trust began the implementation of a new enterprise-wide financial management system.

Based on a needs analysis of all its business operations conducted during Fiscal Year 2000, the Trust decided to purchase an integrated computerized financial system. The new integrated system was purchased in Fiscal Year 2001, for the core financial and cost accounting modules; implementation and data conversion was carried out during the year. Early in 2002 the Trust went live with the core financial system. Additional modules will be installed and implemented during Fiscal Years 2002 and 2003. The installation of this integrated system implements the decision by management to move toward automation of as many of the Trust's transactions as possible, an effort we believe will result in significant operational savings. It also responds to the recommendation by the Trust's auditors to install a fully integrated software solution.

Management recognizes the importance of a secure EDP environment and agrees with the auditors' recommendations. Steps have been taken to resolve the issues raised in the internal control report. A business continuity plan was developed during the fourth quarter of the fiscal year and off-site storage of backup tapes began in fiscal year 2002.

We are pleased that our auditors have reported that our financial statements fairly reflect the financial activity of the Trust with the exception of real estate valuation.

With respect to valuing improvements made to buildings and infrastructure by the U.S. Army and National Park Service prior to the Trust's assumption of jurisdiction over the Presidio, the Trust is unable to determine the value of improvements completed by the other agencies. The Trust does not have access to auditable documentation supporting this work. Given the concern raised by auditors regarding the valuation of these items, the Trust will consider alternative methods for determining their value.

Again, we appreciate the recommendations provided in this report and will consider them carefully as we implement our new financial system during the current fiscal year. We take pride in the fact that we have been able to significantly improve our financial management operations while also building a multi-faceted, fast-growing organization.

Very truly yours,

Craig R. Middleton

Mr. Craig R. Middleton
Executive Director (Acting)

Harry M. Haigood

Mr. Harry M. Haigood
Chief Financial Officer

Lori Eason

Ms. Lori Eason
Controller

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